

Health & Human Services

Maintaining a Strong and Responsible Safety Net

The Governor's May Revision maintains a strong and responsible safety net for our state's most vulnerable residents by continuing the reform proposals and initiatives included in the Governor's January Budget. These reform efforts strike a reasonable and responsible balance between the need to maintain essential services for Californians in need, while implementing strategies to manage and control program costs better over the long term. At the same time, the May Revision identifies a number of additional targeted investments. These proposed investments address emerging issues and promote continued access to services and structures that are critical to supporting the health and well being of the people of California.

May Revision Adjustments—Highlights

- **West Nile Virus**—Experts anticipate that in 2005, California will face increased and widespread West Nile Virus (WNV) activity across the state. In response to the continued public health challenges presented by the WNV, the Administration proposes to provide the Department of Health Services (DHS) with additional resources for allocation to local mosquito control agencies and for state-sponsored abatement activity, especially in areas without local services. The increased funding will support California's comprehensive public education, surveillance, and mosquito control efforts to protect public health and prevent WNV related illness and death.
- **CalWORKs**—To emphasize the work orientation of CalWORKs and to promote self-sufficiency of recipients, the Administration has changed from the position of the Governor's January Budget in order to maintain California's earned income disregard at its current levels. The Administration also proposes investing additional Temporary Assistance for Needy Families (TANF) funds to incentivize counties to develop and implement work-oriented strategies as part of the Pay for Performance initiative proposed in the Governor's January Budget.
- **Enrolling More Children in the Healthy Families Program**—Recognizing the importance of facilitating the enrollment of children eligible but unenrolled in the Healthy Families and Medi-Cal programs, the Governor's Budget proposal called for the restoration of funding for certified applicant assistants to assist in the enrollment of eligible children. Consistent with the Governor's commitment to maximize enrollment of eligible children, the May Revision increases estimated enrollment in the Healthy Families Program by over 100,000 children by the end of 2005-06.

Expenditures: **Health & Human Services**

- **Affordable Prescription Drugs for the Uninsured: Cal Rx**—To promote access to low-cost prescription medicines for lower-income uninsured residents, the Administration proposes additional resources for the design, development, and implementation of the Cal Rx initiative, including the pre-funding required to provide rebates to pharmacies before rebates are collected from manufacturers.
- **Tobacco Control, Disease Prevention, and Indigent Care**—To expand California's effective tobacco control activities and efforts to reduce smoking, to maintain important asthma prevention and intervention activities, and to provide increased support for health care services for low-income Californians supported by the Rural Health Services and California Healthcare for Indigents programs, the May Revision proposes to use available Proposition 99 (tobacco tax) funds to provide one-time increased investments in these programs.
- **Chronic Homelessness Initiative**—The passage of Proposition 63, the Mental Health Services Act (MHSA), provides a unique opportunity for collaboration between the California Health and Human Services Agency and the Business, Transportation and Housing Agency to reduce chronic homelessness among the mentally ill. The May Revision redirects \$40 million from existing housing bonds and \$10 million from the California Housing Finance Agency (CalHFA), along with seed money from the MHSA, to create 400-500 units of permanent housing with services for chronic mentally ill populations.
- **Community Care Licensing**—This program promotes the health and safety of children and adults residing or spending a portion of their time in out-of-home settings. The May Revision proposes to maintain current law that calls for an increase in the sample size of random visits to licensed facilities if the number of citations issued by the Department of Social Services (DSS) increases by more than 10 percent over the previous year. A more comprehensive review is necessary to determine appropriate policy to improve oversight, increase compliance with health and safety standards, and ensure quality care in this program.
- **Medicare Modernization Act Transitional Funding**—To facilitate continuity of care and assist in the transition from Medi-Cal prescription drug coverage to the new Medicare Part D prescription drug benefit, the Administration proposes to fund outreach, training, and support for the approximately one million Medi-Cal beneficiaries who will begin receiving their prescription drug coverage through the new Medicare Part D program on January 1, 2006.
- **Long-term Care Rate Increases**—To ensure continued access to quality long term care services, the Administration proposes a rate increase to certain long-term care facilities in recognition of their increasing costs.
- **Access for Infants and Mothers Rate Increase**—In recognition of the need to provide access to quality healthcare for mothers and infants, the May Revision funds an average 7.2 percent rate increase for pregnant women, an average 1.6 percent rate increase for infants up to one year of age, and an average 3.9 percent rate increase for infants from one to two years of age in the Access for Infants and Mothers Program.
- **Healthy Families Rate Increase**—To continue strong health plan participation in the program, the May Revision funds an average 2.9 percent rate increase for managed care plans participating in the Healthy Families Program.

- **CalOptima Rate Increase**—To maintain the viability of Orange County’s County Organized Health Plan, CalOptima, the May Revision funds a 3 percent increase in the Medi-Cal reimbursement rate for CalOptima

Medicare Modernization Act

Under the terms of the federal Medicare Modernization Act (MMA), on January 1, 2006, approximately one million Californians who are eligible for both Medicare and Medi-Cal will begin receiving prescription drug coverage from the Medicare Part D program. These people, known as dual eligibles, currently receive drug coverage through the Medi-Cal program. This population includes many of the most vulnerable and frail people in California; any break in prescription coverage during this transitional period could have significant negative healthcare outcomes for them. While the transition of drug coverage for dual eligibles is a federal responsibility, the May Revision proposes a significant investment in resources to ease this transition for California’s dual eligible population. This investment crosses several departments as follows:

- **California Health and Human Service Agency (CHHSA)**—\$100,000 General Fund and one position is provided for coordination and leadership to assure a common statewide approach to the MMA implementation.
- **Department of Health Services (DHS)**—\$3.9 million (\$1.6 million General Fund) is provided to fund outreach activities. In addition, the May Revision proposes \$94 million (\$47 million General Fund) to continue providing drugs now covered by Medi-Cal for dual eligibles where federal matching funds are available as those classes of drugs are not covered by Medicare.
- **Department of Developmental Services (DDS)**—\$11.7 million General Fund and 23 positions are provided to ease the transition of the very fragile population in Developmental and Regional Centers. The funds will be used to provide training, outreach, and support to consumers, staff, and providers in both the Regional Centers and Developmental Centers. In addition, funding will be used to provide transitional drug coverage.
- **Department of Mental Health (DMH)**—\$875,000 (\$569,000 General Fund) and ten positions are provided for outreach and support to patients in the state hospitals, to develop new billing systems and software, and to fund transitional drug coverage.

Department of Health Services

Medi-Cal

2004-05	–\$480.1 million
2005-06	\$514.9 million

Expenditures: **Health & Human Services**

Current Year

The May Revision includes total Medi-Cal expenditures of \$33.4 billion (\$11.7 billion General Fund), a decrease of \$480.1 million (\$262.4 million General Fund) below the Governor's January Budget. General Fund expenditures for Medi-Cal have increased by \$1.8 billion, or 17.7 percent over the 2003-04 level.

The average monthly Medi-Cal caseload in 2004-05 is expected to decrease by 15,400 beneficiaries to 6,623,900 eligibles. This represents a decrease of 0.2 percent below the level projected in the 2005-06 Governor's Budget. The revised caseload is 1.7 percent above 2003-04 caseload.

The net General Fund decrease below the 2005-06 Governor's Budget includes the following significant adjustments:

- A \$99 million decrease due to the delay of the nursing facility quality assurance fee and the associated rate increase (AB 1629) from 2004-05 to 2005-06. These dollars are now reflected in 2005-06 projected expenditures.
- A \$68.9 million decrease in projected pharmacy expenditures due to higher than expected savings from the 2004-05 pharmacy cost control initiative and the withdrawal of Vioxx.
- A \$94.5 million net decrease for various cost and utilization changes.

Budget Year

The May Revision includes total Medi-Cal expenditures of \$34.6 billion (\$13.0 billion General Fund), a net total funds increase of \$514.9 million (\$16.1 million General Fund) from the Governor's January Budget.

The average monthly Medi-Cal caseload is expected to decrease from the Governor's January Budget by 74,900 beneficiaries to 6,734,900 eligibles. This represents a decrease of 1.1 percent below the 2005-06 Governor's January Budget.

The budget year includes the following significant General Fund adjustments:

- A one-time \$135.6 million decrease due to the federal decision to have states pay the Medicare Part D "clawback" beginning in February 2006 instead of January 2006.
- A \$94.3 million decrease in projected pharmacy expenditures due to higher than expected savings from the 2004-05 pharmacy cost control initiative and the withdrawal of Vioxx.
- A \$144.6 million increase due to the delay of the nursing facility quality assurance fee and the associated rate increase (AB 1629) from 2004-05 to 2005-06.
- To help ensure the viability of LA County's health care system, the May Revision assumes the continued cost-based payment of LA County's outpatient and clinic care for Medi-Cal beneficiaries. This assumption will not result in increased costs from the Governor's January Budget.
- A \$101.4 million net increase for various cost and utilization changes.

Affordable Prescription Drugs for the Uninsured: California RX (Cal RX)

The Governor's January Budget included resources to implement the Cal Rx program, which will provide discounted drugs to California's low-income uninsured families and individuals.

The Governor's January Budget included \$3.9 million General Fund for the following components of the Cal Rx proposal. The May Revision proposes an additional \$7.8 million for the following:

- \$4.1 million one-time General Fund for additional systems development costs for a total of \$5.1 million.
- \$300,000 General Fund for additional ongoing fiscal intermediary costs in 2005-06. It is now estimated that the annual ongoing fiscal intermediary costs would be \$2.9 million.
- \$3.4 million General Fund to allow pharmacies to be reimbursed before the state receives rebates from manufacturers.

Public Health

2004-05	-\$7.9 million
2005-06	-\$3.2 million

Current Year

Caseload Programs

The May Revision includes a decrease of \$17.9 million General Fund, or 12.5 percent, below the \$143.2 million provided in the Governor's January Budget, due to a decrease in caseload and health care costs in the California Children's Services (CCS), Child Health and Disability Prevention (CHDP), and the Genetically Handicapped Persons Program (GHPP).

The May Revision includes an increase of \$3.3 million from the AIDS Drug Assistance Program (ADAP) Rebate Fund, or 1.3 percent, above the \$244.8 million provided in the Governor's January Budget to fund increased program costs resulting from steadily increasing drug prices and increased access to covered drugs by ADAP clients. Current year caseload at the May Revision has not changed from the Governor's January Budget.

Budget Year

Caseload Programs

The May Revision includes a decrease of \$31.7 million General Fund, or 20.4 percent, below the \$155.7 million provided in the Governor's January Budget, due to adjustments in caseload and health care costs in the CCS, CHDP, and GHPP. This decrease also reflects the following two policy decisions:

Expenditures: **Health & Human Services**

- **Accrual to Cash Basis of Budgeting for GHPP**—GHPP accounting will shift from an accrual to a cash basis. This results in one-time General Fund savings of approximately \$15.6 million.
- **Fasting Blood Sugar and Cholesterol Screenings for CHDP**—Adding fasting blood sugar and cholesterol screenings to the CHDP health assessments, and redirecting existing funds from the Governor's Obesity Initiative to CHDP and CHDP Gateway for this cost, will result in General Fund savings of approximately \$46,000.

The May Revision also includes an increase of \$4.7 million ADAP Rebate Fund, or 1.8 percent, above the \$263.6 million provided in the Governor's January Budget, to fund increased program costs resulting from steadily increasing drug prices and increased access to covered drugs by ADAP clients. Budget year caseload at the May Revision has not changed from the Governor's January Budget.

Cigarette and Tobacco Products Surtax Fund—Proposition 99

Increased Proposition 99 revenues and other available one-time funds make it possible for California to expand support for important tobacco control and smoking prevention activities, to fund tobacco related disease (asthma) prevention efforts and to bolster funding for health care services supported by the Rural Health Services Program and the California Healthcare for Indigents Program.

The May Revision generates one-time Proposition 99 fund savings while maintaining funding for the Major Risk Medical Insurance Program at the current level by partially funding the program with a \$20 million balance in the Major Risk Medical Insurance Fund (MRMIF). The balance is related to a reconciliation of claims for years 1991-2002. In addition, since the Governor's January Budget estimate, Proposition 99 revenues have increased by \$11 million in the current year and \$12 million in the budget year, for a total of \$329 million in the current year and \$321 million in the budget year. The increased revenue appears to be due to a reduction in tax evasion for other tobacco products. Until a more reliable revenue trend is established, the increased revenues should not be dedicated to ongoing expenditure increases.

In light of the new, one-time, available Proposition 99 funds, input from the Legislature and constituent groups regarding the Governor's Budget Proposition 99 expenditure plan, and the Administration's interest in funding important public health and health care services programs, the May Revision includes a revised proposal for Proposition 99 expenditures. The proposal maintains or increases expenditure for Proposition 99 supported health care programs, maintains the Proposition 99 and General Fund savings, and alters expenditures and transfers for programs within the Managed Risk Medical Insurance Board, the Department of Mental Health, and Department of Health Services, as follows:

- Fund the Access for Infants and Mothers (AIM) program with Proposition 99, and use Proposition 99 funds to match the State Children's Health Insurance Program (SCHIP) federal match in 2004-05 and 2005-06.
- Fund AIM and Every Woman Counts caseload increases using Proposition 99 funds in 2004-05 and 2005-06.

Expenditures: **Health & Human Services**

- Fund the New Qualified Aliens Program and the Department of Mental Health (DMH) using General Fund, instead of Proposition 99 funds, in both 2004-05 and 2005-06.
- Provide Proposition 99 funding to support state costs resulting from the Orthopaedic Hospital settlement in 2004-05 and 2005-06.
- Fund increased expenditures for the California Healthcare for Indigents Program and the Rural Health Services program on a one-time basis.
- Provide a one-time increase to support expanded tobacco control and smoking prevention activities, including community-based organization efforts targeting special populations, with high tobacco use rates, media efforts directed to priority populations, and evaluation efforts.
- Provide a one-time increase to support surveillance, and community and school-based case management, and quality assurance efforts to better manage asthma and avoid unnecessary hospitalization and missed school and work days resulting from this disease.

The May Revision proposes policy legislation to amend Proposition 99 to authorize the use of Proposition 99 funding to draw down federal financial participation. This legislation will allow California to maximize federal funding for health services programs. Similar to Proposition 99 amendments enacted by the Legislature in previous years, this legislation requires approval by a 4/5 vote.

West Nile Virus—Prevention and Control

In 2004, West Nile Virus (WNV) spread from six southern California counties to all 58 California counties, causing 830 human infections and leading to 28 deaths. Experts anticipate that in 2005, California will face increased and widespread WNV activity across the state. In anticipation of a threat of early, intense, and widespread WNV disease in 2005, the May Revision provides \$12 million to enhance and expand mosquito control efforts across the state. This one-time investment will build on California's effective mosquito control program by supplementing the resources of existing mosquito control programs and expanding mosquito control programs to cover currently unserved areas of the state. Funding will support mosquito control and abatement activities in WNV high risk areas and provide for emergency mosquito control in WNV hot spots. The increased funding will support California's comprehensive public education, surveillance, and mosquito control efforts to protect public health and prevent WNV related illness and death.

Managed Risk Medical Insurance Board

2004-05	–\$10.0 million
2005-06	\$78.5 million

Healthy Families Program

Current Year

The May Revision includes an overall expenditure increase of \$3.1 million (\$818,000 General Fund). This represents a 0.4 percent increase. This expenditure increase is primarily based on new data projections as transition issues with the new administrative vendor were resolved and an assumption that AB 1396 will be enacted during May 2005 to restore the Certified Application Assistance Program in the current year. The Healthy Families Program (HFP) is expected to serve a total of 740,835 children by June 30, 2005, which is 26,959 more than the caseload anticipated in the Governor's Budget.

Budget Year

The May Revision projects overall expenditures to increase by \$64.4 million (\$22.2 million General Fund) above the level anticipated in the Governor's Budget. This represents a 7.2 percent increase. This change is due to natural growth, capitation rate increases, and earlier implementation of the Certified Application Assistance Program. Consistent with the Administration's goal to cover more of California's uninsured children, year-end children's caseload is expected to reach 867,418 children, which is 78,117 children more than the caseload projected in the Governor's Budget.

Access for Infants and Mothers Program

Current Year

Average monthly enrollment in the Access for Infants and Mothers program is expected to be 13,007 women and infants, compared to 13,314 as originally estimated in the Governor's Budget. This represents a 2.3 percent decrease. Current year expenditures are expected to increase by \$7.9 million (\$24.2 million General Fund decrease, \$26.6 million Proposition 99, \$5.5 million federal funds), due to increased enrollment of women in the program. The May Revision also reflects the shift of the state match from General Fund to Proposition 99 funds.

Budget Year

Average monthly enrollment is expected to be 7,858 women and infants, compared to 7,574 as originally estimated in the Governor's Budget. This represents an increase of 3.7 percent due to natural enrollment increases. Budget year expenditures are expected to increase by \$15.1 million (\$27.4 million General Fund decrease, \$31.6 million Proposition 99 increase, \$10.9 million federal funds increase) due to higher enrollment and capitation rate increases. The May Revision also reflects the shift of the state match from General Fund to Proposition 99 funds.

County Health Initiative Matching Fund Program

The County Health Initiative Matching Fund Program, established by Chapter 648, Statutes of 2001 (AB 495, Diaz), allows county or local public agency funds to be used to match unused federal State Children's Health Insurance Program (SCHIP) funds to provide health care for children with family incomes between 250 percent and 300 percent of the federal poverty level and for parents with family incomes up to 200 percent of the federal poverty level. Current year expenditures are expected to decrease by \$1 million (\$367,000 CHIM Fund, \$682,000 federal funds), due to the lower than anticipated use of these programs by the counties. Similarly, due to adjustments in local funding amounts, budget year CHIM expenditures are expected to decrease by \$1 million (\$350,000 CHIM Fund, \$650,000 federal funds).

Department of Developmental Services

2004-05	-\$81.4 million
2005-06	-\$61.1 million

Developmental Centers

Current Year

The May Revision includes a net reduction of \$2.1 million (\$625,000 General Fund) for Developmental Centers. This net change is due primarily to the following adjustments:

- **Population**—Population in the Developmental Centers is projected to decrease by 105 residents from the level in the Governor's Budget, resulting in \$8.4 million (\$4.9 million General Fund) savings and a reduction of 119.0 positions.
- **Redirection of Population Savings**—Population savings of \$4.7 million (\$2.7 million General Fund) are redirected to fund baseline employee compensation costs and other nondiscretionary costs that exceed available funding. This includes \$1.9 million for employee compensation, \$800,000 for payment of two legal settlements, \$430,000 for janitorial contract costs at a higher blended rate established by the Department of Personnel Administration, and \$1.6 million for utilities.

Budget Year

The May Revision includes a net increase of \$9.4 million (\$6.1 million General Fund) for Developmental Centers. Major changes include:

- **Population**—Population in the Developmental Centers is anticipated to decrease by 55 residents from the Governor's Budget level, resulting in \$6.1 million (\$3.6 million General Fund) savings and a reduction of 93.0 positions.

Expenditures: **Health & Human Services**

- **Agnews Staffing Restoration**—Restoration of 43.0 non-Level-of-Care positions and \$3.2 million (\$1.7 million General Fund) that was reduced in the Governor’s Budget in the standard budgeting adjustment for population decline. These resources are essential to ensure adequate staffing of Agnews Developmental Center during the transition to closure.
- **Workers' Compensation**—An increase of \$4.9 million (\$2.8 million General Fund) to settle select workers’ compensation claims and reduce ongoing liabilities.
- **Quality Management**—An increase of \$664,000 (\$369,000 General Fund) for five positions to assist in a comprehensive review of quality management practices in the Developmental Centers pursuant to federal requirements.

Regional Centers

Current Year

Compared to the Governor’s Budget, the Regional Centers community caseload is projected to decrease by 1,900 consumers, to an updated caseload of 197,355 consumers. The May Revision includes a net decrease of \$62.5 million (\$69.6 million General Fund) for Regional Centers as a result of the following adjustments:

- **Operations**—An overall reduction of \$13.5 million (\$14.7 million General Fund) for Regional Centers operations reflecting legislative denial of a proposed \$10.6 million augmentation for improving Regional Centers case management ratios and a decrease of \$3.0 million due to updated caseload.
- **Purchase-of-Services**—An overall reduction of \$49.0 million (\$54.9 million General Fund) for Regional Centers purchase-of-services due to updated caseload, utilization, and expenditure data and costs for community placement plan and placement continuation. Temporary cost containment strategies, such as rate freezes, unallocated reductions, and other measures, have slowed the annual rate of program growth.

Budget Year

Compared to the Governor’s Budget, the Regional Centers community caseload is projected to decrease by 2,865 consumers, to an updated caseload of 205,155 consumers. The May Revision includes a net decrease of \$31.0 million (\$78.5 million General Fund) as a result of the following changes:

- **Operations**—An overall increase of \$17.7 million (\$4.9 million General Fund) for Regional Centers operations. This net change reflects several adjustments:
 - **California Developmental Disabilities Information System (CADDIS)**—\$2 million is set-aside for proposed functional changes to CADDIS with expenditure contingent upon Department of Finance (Finance) approval. Further changes to CADDIS are on hold pending an independent assessment of the project conducted in the current year under the oversight

of Finance, and the California Health and Human Services Agency. This assessment will determine if the current CADDIS design reflects the project objectives as represented in the original project Feasibility Study Report and Request for Proposal. The review will also consider whether CADDIS will meet Department of Developmental Services (DDS) and Regional Centers business practice requirements and objectives, including objectives related to federal compliance.

- **Compliance with Home and Community-Based Services Waiver**—A net increase of \$9.7 million (decrease of \$1.8 million General Fund) for Regional Centers to meet federally required case management ratios. This increase is due to increased federal financial participation for the proposed new regional center positions.
- An increase of \$189,000 due to updated caseload data.
- **Purchase-of-Services**—An overall decrease of \$47.9 million due to updated caseload, utilization, and expenditure data and costs for community placement plan and placement continuation. Cost containment strategies are continued in the budget year to slow the rate of program growth to sustainable levels.

Agnews Developmental Center Closure

There is a reappropriation of \$11.1 million General Fund from the current year to the budget year for development of community-based housing related to closure of Agnews Developmental Center. These funds are needed in the budget year pending DDS approval of the three Bay Area Regional Centers housing proposals consistent with AB 2100.

Department of Mental Health

2004-05	\$18.6 million
2005-06	\$165.8 million

Long-Term Care/State Hospitals

Current Year

The May Revision includes a net increase of \$1.9 million (\$18.6 million General Fund increase) in 2004-05 for long-term care and state hospitals. The General Fund increase is comprised primarily of the following:

- **State Hospital Population**—There is no change in the state hospital patient population in the current year; however, the proposed realignment of Proposition 99 funding shifts \$16.7 million in state hospital population growth costs from Proposition 99 funding to the General Fund. This additional General Fund need is lowered by \$500,000 due to a redirection of savings from Coalinga State Hospital activation.

Expenditures: **Health & Human Services**

Budget Year

Funding for long-term care and state hospitals is anticipated to increase by a net \$47.0 million (\$67.1 million General Fund) and 233 positions (221.4 personnel years) in 2005-06. Significant General Fund adjustments are as follows:

- **State Hospital Population**—The May Revision includes an increase of \$19.3 million General Fund reflecting an increase of 188 new judicially committed/penal code (JC/PC) patients (\$10.1 million) and 100 pre-commitment Sexually Violent Predators (SVPs) that will not be transferred to local custody as was proposed in the Governor's January Budget (\$9.2 million). Caseload is projected to increase from 5,454 to 5,742 patients. The May Revision also includes an increase of \$20.5 million General Fund and a corresponding \$20.5 million decrease in reimbursements to shift costs of state hospital population growth from Proposition 99 funding to the General Fund.
- **Court-Ordered Conditional Release Program**—A General Fund decrease of \$436,000 to reflect an updated projection of patients to be released from state hospitals into community treatment programs pursuant to a court order for conditional release. The May Revision projects a caseload of nine SVPs, down from 14 projected in the Governor's January Budget, and 720 other patients, down from 730 in the Governor's January Budget.
- **SVP Evaluations and Court Testimony**—A reduction of \$102,000 General Fund due primarily to a decrease in the estimated number of SVP recommitment evaluations.

Community Mental Health Services

Current Year

The May Revision includes a reduction of \$73.9 million in reimbursements for community mental health services in 2004-05. The change is comprised of the following major adjustments:

- **Early and Periodic Screening, Diagnosis, and Treatment (EPSDT) Program**—The May Revision includes a reduction of \$71.9 million in reimbursements (\$32.4 million General Fund in the DHS budget), reflecting a revised caseload projection. The May Revision projects a 19.9 percent rate of growth from FY 2003-04 to FY 2004-05, down from 33.1 percent estimated in the Governor's January Budget. The projection is based on approved claims from FY 2002-03 and FY 2003-04.
- **Healthy Families Program**—Funding for mental health services for Healthy Families Program participants is proposed to decrease by \$2.3 million. This change reflects updated claiming information and county administrative costs.

Budget Year

The May Revision includes an increase of \$128.0 million (\$98.7 million General Fund) in 2005-06 for community mental health services compared to the Governor's January Budget. Major adjustments include the following:

Expenditures: **Health & Human Services**

- **Mental Health Services to Special Education Pupils (AB 3632)**—An increase of \$90 million General Fund to reimburse counties for prior years costs claimed for the Services to Handicapped Students and Emotionally Disturbed Pupils (AB 3632) mandates. In addition, resources are provided to the State Controller for a multi-year effort to audit county claims for these mandates.
- **EPSDT Program**—The May Revision includes a net increase of \$21.4 million in reimbursements (\$12 million General Fund in the DHS budget) for the EPSDT program. This change reflects two adjustments:
 - Savings of \$117.9 million (\$55.7 million General Fund) due to a decrease in projected claims. The May Revision projects a 4.7 percent rate of growth in 2005-06, down from 10.6 percent estimated in the Governor's January Budget.
 - An increase of \$139.4 million (\$67.7 million General Fund) for final settlement of county EPSDT cost reports for 2002-03.
- **Mental Health Managed Care Program**—There is a net increase of \$17.4 million (\$8.6 million General Fund) for Mental Health Managed Care. This change primarily reflects the following adjustments:
 - Significant one-time costs of \$19.3 million (\$9.7 million General Fund) to produce and distribute informing materials to Medi-Cal households pursuant to federal Medicaid notification requirements. This is a condition of the Medi-Cal Specialty Mental Health Services Consolidation Waiver that was approved by the federal Centers for Medicaid and Medicare Services (CMS) in April 2005. This outcome is the result of extensive negotiations between the DMH and the CMS to provide partial relief from the original federal requirement, which would have cost over \$350 million to implement.
 - A net decrease of \$2.1 million (\$1.0 million General Fund) for caseload changes such as a decrease in Medi-Cal eligibles and increased inpatient costs.
- **Healthy Families Program**—Funding for mental health services for Healthy Families Program participants is proposed to decrease by \$2.5 million. This change reflects updated claims information and county administrative costs.

Proposition 63 Funds for the Governor's Chronic Homelessness Initiative

The passage of Proposition 63 provides a unique opportunity for departments within the Health and Human Services and Business, Transportation and Housing Agencies to come together to leverage service dollars and capital bond financing to form the Governor's Chronic Homelessness Initiative. Existing dollars in the Department of Housing and Community Development (HCD) and the California Housing Finance Agency (CalHFA) along with new Proposition 63 funding will be used to provide resources for the Governor's Initiative. Proposition 63 will provide \$2.4 million of new funding. These funds would be available for expenditure for two years and would be used for rent subsidies (\$2 million) and to establish collaboratives (\$400,000) at the local level to assist counties in developing projects to promote stable housing for homeless persons. These Proposition 63 funds are in addition to resources provided by HCD and CalHFA to create 400 to 500 units of permanent housing

with services for chronic homeless populations (veterans, mentally ill, emancipated youth, and drug-addicted individuals).

Department of Alcohol and Drug Programs

2004-05 **–\$1.5 million**

2005-06 **–\$1.1 million**

Current Year

Caseload Programs

The May Revision includes a decrease of \$1.6 million General Fund, or 2.7 percent, below the \$58.8 million provided in the Governor's January Budget. This reduction is primarily due to revised estimates for caseload and units of service.

- **Regular Drug Medi-Cal**—Costs are expected to be \$2.7 million General Fund lower than projected in the Governor's January Budget. Caseload is estimated to be 0.5 percent higher than projected in the Governor's January Budget.
- **Perinatal Drug Medi-Cal**—Costs are expected to be \$1.1 million General Fund higher than projected in the Governor's January Budget. Caseload is estimated to be 5.9 percent higher than projected in the Governor's January Budget.

Pursuant to Provision 1 of Items 4200-102-0001 and 4200-103-0001 of the 2004 Budget Act, \$626,000 (\$313,000 General Fund, \$313,000 reimbursements) has been transferred from the Regular Drug Medi-Cal program to the Perinatal Drug Medi-Cal program to mitigate the need for a current year supplemental appropriations bill.

Budget Year

Caseload Programs

The May Revision includes a decrease of \$1.1 million General Fund, or 1.8 percent, below the \$62.8 million provided in the Governor's January Budget. This reduction is primarily due to revised estimates for caseload and units of service. Budget year costs reflect the Governor's Budget proposal to continue funding 2005-06 Drug Medi-Cal rates at the 2002-03 levels.

- **Regular Drug Medi-Cal**—Costs are projected to decrease by \$2.3 million, or 3.7 percent, below the Governor's Budget due to changes in caseload and average units of service. Caseload is projected to increase by 3,229, or 1.9 percent, above the Governor's January Budget. This net change in caseload reflects an increase of 4,351 clients in the Outpatient Drug Free Program, the lowest-cost modality in Regular Drug Medi-Cal, and a decrease of 1,267 in the Narcotic Treatment Program, the highest-cost modality in Regular Drug Medi-Cal.

Expenditures: **Health & Human Services**

- **Perinatal Drug Medi-Cal**—Costs are projected to increase by \$1.2 million General Fund above the Governor’s Budget due to increased estimates for caseload and average units of service. Caseload is projected to increase by 534, or 8.1 percent, above the Governor’s January Budget. This change in caseload reflects a net caseload increase of 643 in the Outpatient Drug Free, Day Care Rehabilitative, and Narcotic Treatment programs, and a decrease in caseload of 109 in the Residential Program.

Dependency Drug Courts

Dependency drug courts help to reduce foster care costs and increase permanency and stability for children by providing substance abuse treatment to parents involved in dependency court cases. These courts have expanded access to substance abuse treatment for parents involved in the child welfare services system. The benefits include increasing the number of families that are reunified, shortening the time to reunification, and reducing the length of stay in foster care. The May Revision includes a one-time augmentation of \$1.1 million in federal Promoting Safe and Stable Families funding to provide continued support to the dependency drug court expansion pilot project in 2005-06 and to fund an evaluation of the cost-effectiveness of the pilot. Specifically, the May Revision includes \$900,000 for the Department of Alcohol and Drug Programs to restore the 2005-06 funding level to \$1.8 million, consistent with the 2004-05 appropriation, and \$200,000 for the Department of Social Services to fund an evaluation of the pilot.

Department of Social Services

2004-05	–\$158.8 million
2005-06	–\$48.7 million

CalWORKs

The 2004-05 average monthly CalWORKs caseload of 491,700 represents a 2.3 percent increase from 2003-04, revised from the Governor’s January Budget estimate of 3.0 percent growth. For 2005-06, the caseload is now expected to be 483,500, a 1.7 percent decrease from the projected 2004-05 caseload. Although the number of cases projected for 2005-06 increased by 10,500 compared to the Governor’s January Budget, the number of persons per case is lower than previously estimated resulting in savings compared to the January estimate.

The May Revision continues to meet the federally required combined state and county Temporary Assistance for Needy Families (TANF) maintenance-of-effort (MOE) of \$2.7 billion. For 2004-05, total CalWORKs-related expenditures are estimated to be \$6.7 billion including the transfer to the Department of Education for child care and county expenditures. For 2005-06, total CalWORKs-related expenditures are anticipated to be \$6.8 billion.

The availability of federal TANF Block Grant funds in May has allowed the Administration to re-evaluate CalWORKs reductions that were previously required to maintain expenditures within the limited

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resources available in January. To emphasize the work orientation of CalWORKS and to promote self-sufficiency of recipients, the Administration proposes to maintain California's earned income disregard at current levels and to invest additional TANF funds to incentivize counties to develop and implement work-oriented strategies as a part of the Pay-for-Performance initiative proposed in the Governor's Budget.

Major changes proposed for 2005-06 include the following:

- **CalWORKs Income Disregard Reduction**—The May Revision includes an increase of \$79.5 million to maintain the CalWORKs income disregard at current levels. The income disregard is a factor in determining CalWORKs continuing eligibility and grant levels, and offers a significant incentive to individuals who comply with program requirements and achieve work.
- **CalWORKs Grant Reduction**—The Governor's January Budget savings of \$212.3 million are reduced by \$52.7 million due to shifting the implementation date for the proposed 6.5 percent reduction in grant levels from July 1, 2005, to October 1, 2005. The three-month delay would allow counties sufficient time to adjust their payment systems to reflect the new grant levels.
- **CalWORKs Sanction Policy**—The Governor's January Budget targeted \$12 million in savings from a strengthened sanction policy, and anticipated a specific proposal this spring following the review of a statutorily required report on the current sanction policy. Due to the vendor's delay in releasing the report, the Administration lacks sufficient information to develop a specific proposal to achieve the targeted savings. Although the May Revision restores the \$12 million in targeted savings, the Administration, upon receipt of the report, will work with advocates, counties, and the Legislature to develop a revised policy that better promotes personal responsibility and self-sufficiency.
- **Pay-for-Performance**—The Administration proposes to set aside \$30 million in TANF Block Grant funds in 2005-06 for allocation to counties in 2006-07 who meet specific CalWORKs program outcomes, instead of withholding 5 percent of the counties' 2005-06 single allocation. This proposal is expected to better focus counties on the goals of increasing both the number of hours worked by CalWORKs recipients and their earnings.

Supplemental Security Income/State Supplementary Payment Program

Total General Fund expenditures for the Supplemental Security Income/State Supplementary Payment Program (SSI/SSP) program are \$3.4 billion in 2004-05 and \$3.5 billion in 2005-06, representing decreases of \$26.7 million in 2004-05 and \$45.4 million in 2005-06 compared to the Governor's January Budget due to lower than expected caseload growth. Caseload for the SSI/SSP program is projected at 1,186,000 recipients in 2004-05 and 1,214,200 recipients in 2005-06, which represents a year-to-year caseload growth of 2.4 percent. These caseload estimates reflect a decrease of 0.2 percent in each year from the Governor's Budget projection. Significant changes in SSI/SSP General Fund expenditures include:

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- A reduction of \$27.6 million in 2004-05 and \$35 million in 2005-06 due to lower caseload and average monthly grant expenditures since the Governor's January Budget.
- Increased General Fund savings of \$12 million in 2005-06 from the Administration's proposal to capture General Fund savings equivalent to the January 2006 SSI/SSP federal cost-of-living adjustment. This is due to a higher federal cost-of-living adjustment factor.
- An increase of \$0.9 million in 2004-05 and \$1.6 million in 2005-06 to reflect costs associated with the delayed implementation of the Cash Assistance Program for Immigrants (CAPI) advocacy services by counties. This program is designed to shift individuals that currently receive state-only CAPI benefits to the federal SSI program.

In-Home Supportive Services

Total General Fund expenditures for the In-Home Supportive Services (IHSS) program are \$1.2 billion in 2004-05 and \$1.0 billion in 2005-06, which represents a decrease of \$5.6 million in 2004-05 and an increase of \$4.4 million in 2005-06 compared to the Governor's January Budget. Caseload is projected to be 348,800 recipients in 2004-05 and 375,000 in 2005-06, which represents a year-to-year caseload growth of 7.5 percent. Significant General Fund adjustments include the following:

- An increase of \$10.6 million General Fund in 2005-06 to continue funding costs associated with applying Medi-Cal share-of-cost rules to certain IHSS recipients. This is consistent with the Administration's intent to protect recipients' access to services under last year's federal Waiver. The Departments of Social Services and Health Services continue to work with counties to implement the Waiver with as little disruption to recipients as possible.
- An increase of \$4.3 million General Fund in 2004-05 due to counties that increased IHSS wages and/or health benefits since the Governor's January Budget. The Administration's proposal to roll back state participation in wages/benefits to the June 30, 2004 levels protects the state from the \$10.5 million General Fund cost in 2005-06 that would result from these increases.
- Decreases of \$9.4 million in 2004-05 and \$6.5 million in 2005-06 due to a lower caseload projection since the Governor's Budget.

The Governor's January Budget included a proposal to develop and implement an IHSS worker telephone tracking system as a means to minimize fraud and abuse in the IHSS program. It was recently determined that the savings realized by other states using similar systems may not be achievable in California given the state's comprehensive Quality Assurance efforts underway. The Administration is withdrawing this proposal at this time to further evaluate the benefits of a telephone tracking system.

Automation Projects

In recognition of the need to mitigate implementation difficulties, such as those experienced by Sacramento County, the May Revision includes an increase of \$3.9 million General Fund in 2005-06 for the Welfare Client Data System (WCDS) project. This funding will provide implementation support for the bulk of the remaining counties yet to convert to the WCDS. These resources will allow for

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a vendor support team, increased training for county expert coaches, and a higher ratio of coaches to caseworkers prior to and during conversion. For those counties that feel extended support for transition activities is necessary, the state will make additional funding available, with a 40 percent county share of the non-federal cost, to maintain support for one month post conversion.

Foster Care

Total General Fund expenditures for the Foster Care Program are \$490.3 million in 2004-05 and \$426.8 million in 2005-06, which represent decreases of \$11.9 million in 2004-05 and \$19.1 million in 2005-06 compared to the Governor's January Budget. Caseload growth in the Foster Care program continues to slow and flatten, indicating reduced entries and increasing exits from the system. The combined \$31 million General Fund decrease is primarily due to a reduced caseload projection and a slight reduction in average grants since the Governor's January Budget. The year-to-year caseload growth is projected to decline 0.5 percent.

Child Welfare Services

Total General Fund expenditures for Child Welfare Services (CWS) are \$589.7 million in 2004-05 and \$629.5 million in 2005-06, which represent decreases of \$23.1 million in 2004-05 and \$15.6 million in 2005-06 compared to the Governor's January Budget. Caseload growth in the CWS program continues to slow and is reporting declines in certain components of the program. The combined \$38.7 million General Fund decrease is due primarily to a lower caseload projection and the transfer of additional federal TANF Block Grant funding to the federal Social Services Block Grant (Title XX) for eligible Family Reunification and Permanent Placement activities since the Governor's January Budget. State law permits Title XX funds to be used in CWS to offset General Fund costs without affecting county funds. The caseload for all CWS program components is projected to decrease by 1.2 percent from 2004-05 to 2005-06.

CWS Outcome Improvement Project

CWS is evolving into an outcome-focused program with the implementation of the new California Outcome and Accountability System (AB 636). The May Revision proposes to redirect 2005-06 funding and any 2004-05 savings to establish a CWS Program Improvement Project. The CWS Program Improvement Project activities reflect an updated implementation strategy developed in consultation with counties and other key stakeholders. The revised strategy better utilizes available resources to improve outcomes for children. Specifically, the revised plan would:

- Continue the implementation and evaluation of CWS Program Improvement Plan (PIP) initiatives that focus on improved safety assessments and increased opportunities for early intervention that are currently underway in the first cohort of 11 counties, funded at the 2004-05 appropriation level.
- Delay the expansion of improvement activities to the second cohort of counties pending a thorough evaluation of the first pilot group.

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- Redirect \$5.9 million (\$3.7 million General Fund) originally proposed for PIP expansion activities to support efforts identified by counties in their System Improvement Plans (SIPs) that are intended to improve AB 636 performance and federal improvement measures. Priority will be given for projects and activities that have a positive impact on the safety of children.

The May Revision also includes the reappropriation of unspent federal Promoting Safe and Stable Families and State Children's Trust Fund funding from 2004-05 to 2005-06 to support activities associated with implementation of specific county action plans needed to improve program performance and ongoing PIP initiatives. This revised proposal funds implementation of these county SIPs within budgeted resources and provides sufficient funding to continue critical PIP activities to achieve compliance with federal performance requirements and avoid federal penalties.

Community Care Licensing

The Governor's Budget proposed to eliminate a new statutory requirement to increase the number of visits to licensed community care facilities if citations issued by the Department of Social Services (DSS) exceed the previous year's total by 10 percent. The May Revision proposes to rescind the request to eliminate the statutory requirement. The DSS is currently evaluating data on visits conducted and citations issued in 2004-05. A more comprehensive review is necessary to determine appropriate policy to improve oversight, increase compliance with health and safety standards, and ensure quality care for vulnerable clients in community care facilities. It is important to note that while the ongoing review continues, the DSS will improve the safety of individuals receiving services in licensed facilities by filling nearly 100 vacant positions and taking steps to improve efficiency. The Administration will complete its review and address operational efficiencies and program improvements as part of the 2006-07 Governor's Budget.